

January 7, 2019

SEMI - ANNUAL DEPARTMENT NEWS

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A Message from Superintendent Robert D. Charlton

Governor Doug Ducey’s vision is for Arizona to be the number one state to live, work, play, recreate, retire, visit, do business, and get an education. To achieve this vision, Arizona is deploying a professional, results-driven management system to transform the way our State government thinks and does business as one enterprise. State agencies are doing more good for Arizona by tracking and improving their performance each and every day.

ADMINISTRATION/IT DIVISION

Arizona Department of Financial Institutions

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Please be aware that when you visit our office, there is a 2 hour limit for parking directly in front of the building. For your convenience, there is a parking lot on the east side of 15<sup>th</sup> Avenue that is available all day at no cost. Be prepared to show your identification and check in with the security desk to receive a visitor’s badge.

DFI was awarded funding for an agency e-licensing and workflow project in FY19. The new project will integrate 10+ antiquated programs into 1. The new project is currently 40% complete. The “Go-Live” date is April, 2019.



## LEGISLATIVE ALERT

### The 2019: 54th Legislature

The 1st Regular Session is scheduled to convene Monday, January 14th. This new year brings new changes to leadership in both the House and Senate. The Senate will be led by President Karen Fann and the Committee on Finance will be Chaired by Sen. J.D. Mesnard.

The House will be led by Speaker Rusty Bowers and one of the biggest changes in 2019 comes in the House with the elimination of the Banking and Insurance Committee. The Department expects many of the financial issues to go through the Commerce Committee.

If you have any legislative questions, please contact Stephen Briggs at [sbriggs@azdfi.gov](mailto:sbriggs@azdfi.gov).

## ARIZONA FUN FACTS

The Arizona flag was originally created by the Arizona rifle team.

The flag was originally created to serve a very niche group of people: the Arizona rifle team. When this rifle team began to compete, they created the initial design of the Arizona to fly in place of an official state flag. The design caught on, and their design was eventually adopted as the official flag of Arizona.



## LICENSING

Money Transmitter 2018 Q4 reports are due by February 15<sup>th</sup>, 2019. Each licensee must provide the Department, within forty-five days after the end of each quarter, a consolidated financial statement including a balance sheet, income and expense statements and a list of all authorized delegates, branch managers, responsible individuals and locations within this state that have been added or terminated by the licensee within the fiscal quarter. Please remember to pay \$25 for each location the licensee is adding.

### Upcoming Renewals:

Debt Management: Due no later than June 15<sup>th</sup>, 2019 (<https://dfi.az.gov/debt-management-companies-dfi>)

Consumer Lenders: Due no later than June 30<sup>th</sup>, 2019 (<https://dfi.az.gov/consumer-lenders-dfi>)

Sales Finance: Due no later than June 30<sup>th</sup>, 2019 (<https://dfi.az.gov/sales-finance-companies-dfi>)

## CONSUMER AFFAIRS

The Consumer Affairs Division is responsible for reviewing and handling any complaints filed against entities licensed with the Department. The Division also responds to inquiries from consumers and licensees that may not be an actual “complaint”. A list of license types and the various lists of active licensees may be obtained at <https://dfi.az.gov/licensee-lookup>. The Department reviews complaints to ensure compliance with all applicable laws and rules. All complaints are forwarded to the Licensee with a requirement to respond to the complaint within 10 days. Failure to respond may subject the Licensee to administrative action up to and including a cease and desist order with a civil money penalty of up to \$5,000.00 per day per violation. Complaints are processed electronically via e-mail.

Licensees should ensure that the Department has the correct email address in order to process a complaint. In addition, the Consumer Affairs Division processes complaints filed against entities transacting business in Arizona that should be but are not licensed by the Department. Each company doing business in Arizona must obtain the appropriate license before conducting business in Arizona. Anyone who would like to file a complaint may obtain a complaint form at <https://dfi.az.gov/file-complaint>. Please provide a valid e-mail address to expedite the processing of your complaint.

### For More Information:

Complaints may be emailed to [consumeraffairs@azdfi.gov](mailto:consumeraffairs@azdfi.gov).

## FINANCIAL SERVICES DIVISION

### Collection Agency News!

A recent trend in the Department’s collection agency exams is the use of a third party to handle various accounting functions of the agency including trust account reconciling. As a reminder, if your agency chooses to use a third party accountant to reconcile your trust account it does not exempt the agency from the requirements set forth in Arizona Administrative Code R20-4-1504.

Arizona Administrative Code R20-4-1504 itemizes the specific records that are to be kept to provide a clear and readily understandable record of all business being conducted by an agency. Specifically for this article, included in the code is the requirement for monthly reconciliations and the retention of these items for at least six years following their creation.

There have been instances when the Department has encountered agencies whose third party accountants would reconcile 2-3 months’ worth of bank statements at one time. In addition, some agencies did not have these records on file and had to obtain them from the third party accountant for the onsite examination. To reiterate, collection agency licensees may use third party accounting services, however this does not exempt the Licensee from the requirements mentioned above.



 Remember...	Renewal	Report Due	Semi-Annual Report
Collection Agencies	December 31	N/A	Fictitious Name Report: July 1 and December 31
Consumer Lenders	June 30	Annually–October 1	N/A
Debt Management Companies	June 30	Annually–August 15	N/A
Escrow Agents	September 30	Annually– April 30	August 15 & February14
Money Transmitters	October 31	Quarterly–See A.R.S. 6-1211	N/A
Premium Finance Companies	December 31	Annually–February 1	N/A
Sales Finance Companies	June 30	N/A	N/A

## FINANCIAL SERVICES DIVISION (CONT.)

### The Latest in Appraisal News

**Changes to retention for appraiser/AMC complaints:**

The retention schedule for non-permanent documents for the Appraisal program is in the process of being aligned with that of the rest of the Department. Going forward, documents filed for dismissed, non-disciplinary, and disciplinary complaints will be destroyed *five years after the licensee file is closed*. A licensee file is closed as of the date that a license or registration expires, is surrendered voluntarily or is revoked.

Prior to this change, the retention schedule for documents relating to complaints that were dismissed or resulted in a non-disciplinary action was three years after adjudication and for those relating to complaints that resulted in a disciplinary action was ten years after adjudication. Since the Department will no longer have access to those documents after the retention period ends, appraisers and AMCs who are required to provide those documents to various entities must retain those documents in their own files.

By The Numbers:

Appraisal Licensees

	Dec 2017	Dec 2018
Licensed	153	150
Certified Residential	1,102	1,132
Certified General	764	767
<b>Total</b>	<b><u>2,022</u></b>	<b><u>2,049</u></b>

*The above numbers do not include temporary practice permits.*

	2018/ JAN	2018/ FEB	2018/ MAR	2018/ APR	2018/ MAY	2018/ JUN	2018/ JUL	2018/ AUG	2018/ SEP	2018/ OCT	2018/ NOV	2018/ DEC
Number of Complaints Filed*	0	5	4	10	8	6	10	2	1	7	2	
The following actions were adjudicated**:												
Dismissed	6	1	3	0	5	1	3	2	1	0	2	
Letter of Concern, Non-Disciplinary, Level 1	2	1	0	0	0	1	0	1	0	0	1	
Order for Additional Education, Non-Disciplinary, Level 1 or 2	0	2	0	2	2	1	0	1	0	2	2	
Order for Additional Education, Disciplinary, Level 2	0	0	0	0	0	0	0	0	0	0	0	
Order for Additional Education, Disciplinary, Level 3	0	0	0	0	0	0	0	2	0	0	0	
Order for Probation, Disciplinary, Level 3	0	0	1	0	1	0	0	1	0	0	0	
Order for Suspension, Disciplinary, Level 4	0	0	0	0	0	0	0	0	0	0	0	
Order for Voluntary Surrender, Disciplinary, Level 5	0	0	0	0	0	0	0	0	0	0	0	
Order for Revocation, Disciplinary, Level 5	0	0	0	0	0	0	0	0	0	0	0	
Order for Cease & Desist	0	0	0	0	0	0	0	0	0	0	0	
Informal Meeting (# of Complaints)	3	1	0	2	0	1	1	2	1	0	2	
Formal Hearing (# of Complaints)	0	0	0	0	0	0	0	0	0	0	0	

\*'Complaints Filed' reflects the number of complaints received by the Department in the given month. Due process allows the Respondent 30 days to respond to the complaint. The investigation by the Department commences upon receipt of that response.

\*\*Please note that as of July 1, 2016, the statistics have been revised, dating back to January 2016, and going forward to reflect complaints 'adjudicated' (resolved) during a given month, in lieu of 'action(s) taken' (determined by the Board).

## MORTGAGE LENDING DIVISION

### **2018 was a busy year for the Mortgage Lending Division!**

During the month of June, the Mortgage Lending Division became the 25th state to be accredited by the Conference of State Bank Supervisors (CSBS) Mortgage Supervision Program on the first attempt. This accreditation is a first for the State of Arizona and confirms that the Department of Financial Institutions maintains the highest standards and practices in mortgage supervision as set by the CSBS. Under this accreditation, the Mortgage Lending Division will continue to strengthen and promote excellence while minimizing the regulatory burden.

The Mortgage Lending Division also worked hard to create a new Mortgage Broker test, which is now being offered monthly (First Thursday of every month). In addition, we created a new Mortgage Broker Handbook that is available on our website at <https://dfi.az.gov/>.

Come January 1, 2019, the Federal Housing Administration's (FHA's) loan limits are set to increase across most areas in the country by approximately 7%, mirroring the rise for conforming loans.

The new limit will be \$314,827 for a single unit home in most of the nation, but for some high-cost areas, it rises to \$726,525. By law, the floor, or lowest loan limit the FHA can impose is tied to 65% of the conforming loan limit, which the Federal Housing Finance Agency (FHFA) recently set at \$484,350. The floor applies to areas where the median home price is less than 115% of the loan limit.

Also, the FHFA will raise the maximum conforming loan limits for mortgages Fannie Mae and Freddie Mac purchase in 2019 from \$453,100 to \$484,350. The announcement marks the third time FHFA has increased the baseline loan limit since 2006.

In high-cost areas, such as Los Angeles, New York, San Francisco and Washington, D.C., the maximum loan limit will be \$726,525, which is 150 percent of \$484,350. Meanwhile, limits will rise in all but 47 counties in the country.

**The Mortgage Lending Division regularly provides the number of each of its Licensees and they are as follows as of December 10, 2018:**

Mortgage Broker Licenses	472
Mortgage Banker Licenses	518
Commercial Mortgage Broker Licenses	73
Commercial Mortgage Banker Licenses	25
Loan Originator Licenses	18,567
Total Licenses	19,655

## A Message from the Credit Union Division:

### SAVINGS TRENDS IN USA

Among the various actions accomplished on a daily basis, there may be one undertaking that arises in conversations every so often ~ whether we interact as part of our work, within communities, family or simply when planning personal goals. The topic researched was: What are the saving trends in the U.S.A.?

On March 15, 2018, it was reported on a television news business channel that a survey showed 65% of Americans save little of their annual income or do not save at all. The news report indicated that the consumer financial services company that performed the survey also showed over 40% of Americans had less than \$10,000 saved for retirement. When asked what was keeping citizens from saving, the leading answer from 39% of people that responded was, "Expenses". [Sources: CNBC 03/05/18; Bankrate; and GoBanking Rates]

On August 28, 2018, another report surfaced that Americans were still not saving for the future. The analysis found that trend which was occurring in spite of the low unemployment and a high stock market. The report stated that every personal financial advisor recommends consumers maintain a strong emergency savings account. The longstanding advice was also presented ~ keep at least three months of living expenses in a safe, risk-free savings account at a minimum. [Source: MarketWatch 08/28/18]

As we look at the Credit Union industry, one monthly industry report indicated generally positive trends for 2018. During September, savings balances rose at a 6.1% annualized pace. A positive contributing factor was that over 300,000 new members joined Credit Unions. Additionally, U.S. Credit Union loan balances increased 9.7% over those of 2017. And, loan delinquencies as a percentage of total outstanding loans, decreased .78% due to a stronger economy with a more solid job growth. The savings increases with stable loans are a healthy trend. Overall, the Credit Union industry is moving in the right direction economically as it prepares for the future. [Source: CUNA Mutual November, 2018]



"Credit union" means a cooperative nonprofit association which is incorporated under this chapter for the purposes of encouraging thrift among its members and creating a source of credit and other financial services at fair and reasonable cost.

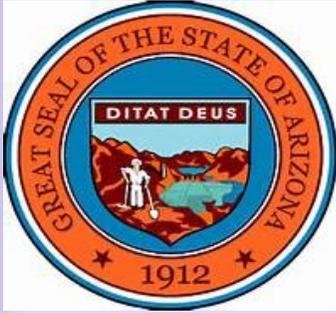
## BANK AND TRUST COMPANY DIVISION

On May 24, 2018, President Trump signed into law the “Economic Growth, Regulatory Relief, and Consumer Protection Act” also known as the “Bipartisan Banking Act.” This Act provided limited amendments to the existing Dodd-Frank law and also targeted certain other regulatory requirements. The law is expected to provide meaningful regulatory relief for smaller and some regional banking organizations. Some of the primary changes include the following:

- Raises the statutory asset threshold for Enhanced Prudential Standards (EPS) for bank holding companies from greater than or equal to \$50 billion to greater than or equal to \$250 billion.
- Provides further relief to banks with less than \$10 billion in total assets (“community banks”) by providing the option to adopt a new community bank leverage ratio and exempting these banks from the Volcker rule.\*
- Directs U.S. banking regulators to establish a new “community bank leverage ratio,” and generally provides that community banks opting to adhere to the new ratio will be exempt from otherwise applicable capital standards.
- Requires shorter Call Reports for the first and third quarters of the year for institutions with consolidated assets less than \$5 billion.
- Raises the consolidated asset threshold under which eligible well capitalized and well managed insured depository institutions may qualify for an 18-month examination cycle from \$1 billion to \$3 billion.
- Makes changes to existing High Volatility Commercial Real Estate (HVCRE) definitions and rules, defines a new Acquisition, Development, and Construction (HVCRE ADC) loan category, and clarifies issues surrounding property valuation, capital withdrawals, and timing for when a loan is no longer HVCRE.
- Other changes include the exemption of reciprocal deposits from the definition of brokered deposits up to the lesser of \$5 billion or 20% of the bank’s liabilities; permission for a financial institution opening an account over the internet to accept a scan, copy, or other image of a driver’s license or other identification; and provides relief, under certain circumstances, from the requirement to obtain an appraisal for transactions of less than \$400M that involve property in a rural area.

\*The **Volcker Rule** is a federal regulation that generally prohibits banks from conducting certain investment activities with their own accounts and limits their dealings with hedge funds and private equity funds, also called covered funds.





## DFI MANAGEMENT

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### WE NEED YOUR HELP

There's no regulation too small or rule too out-of-date to suggest eliminating to expand opportunities for people across the state.

Visit

<http://azgovernor.gov/redtape> and make a difference today. You send it and we'll see it, because big things can happen when government gets out of the way of innovation, creativity, and entrepreneurship.

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### Our Mission

- ◆ To license, examine, and supervise Financial Institutions, in compliance with State law, to ensure safety for the Arizona consumer and soundness for the Arizona business.

### Our Vision

- ◆ Advance a nationally recognized, strong and vibrant financial marketplace benefiting Arizona citizens and businesses.

### Our Goals

- ◆ To conduct a professional, efficient and effective examination program, meeting statutory requirements and ensuring licensees operate in a safe and sound manner and comply with all applicable laws.
- ◆ To create new strategies to keep pace with the changing financial services industry.

### Our Strategies

- ◆ A thorough investigation of the applicants for all permits and licenses issued by the Department at the speed of business.
- ◆ An ongoing program of examination of licensees to determine the safety and soundness of their operations and to identify those licensees with serious financial or operational problems.
- ◆ Ensuring that management of the licensees initiate timely and effective corrective action by complying with Arizona Statutes and Rules.